

CA20N  
SC  
-A56 C.2

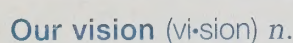
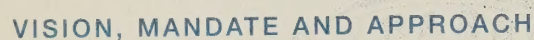
Government  
Publications

# O·S·C

DEFINING SECURITIES REGULATION

**confidence** (con·fi·dence) *n.*

1. a faith or belief that an institution or system will function in a right, proper or effective way
2. to trust, believe in and be sure about the abilities of someone or something



- Our mandate** (man·date) *n.*

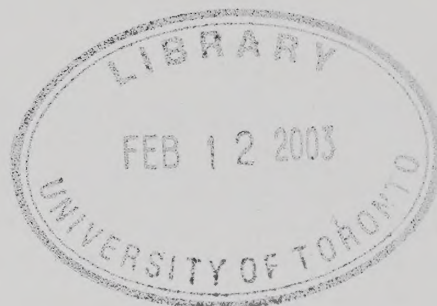
- Our approach** (ap•proach) *n.*

- ## CONTENTS

Who We Are. What We Do. 1 | Commission Members 2 | A Message from the Chair 4 | A Message from the Executive Director 6  
Innovate 8 | Integrity 10 | Simplify 12 | Strategic Considerations 14 | What We Worked on in 2001/2002 15 | Enforcement Calendar 18  
OSC Public Salary Disclosure 23 | Management's Discussion and Analysis 24 Management's Responsibility and Auditor's Report 29  
Balance Sheet 30 | Statement of Operations and Operating Surplus 31 | Statement of Cash Flows 32 | Notes to the Financial Statements 33  
Five Year Statistical Summary 38



## WHO WE ARE. WHAT WE DO.



As the regulatory body responsible for overseeing the securities industry in Ontario, the Ontario Securities Commission administers the *Securities Act*, the *Commodity Futures Act* and certain provisions of the *Ontario Business Corporations Act*. To effectively carry out its mandate, the Commission is organized into nine core branches.

### CAPITAL MARKETS

Encompassing Market Regulation, Compliance, Registration and Investment Funds, the Capital Markets branch is responsible for the regulation of registrants, investment products, markets, and clearing and settlement systems.

### CORPORATE FINANCE

Responsible for the regulation of public companies, the Corporate Finance branch oversees offerings; continuous disclosure filings; take-over bids, mergers and acquisitions; and all related administration and document management.

### ENFORCEMENT

With the objective of protecting investors and promoting market integrity, the Enforcement branch ensures that Ontario securities laws are upheld through equitable and effective enforcement.

### COMMUNICATIONS

Working closely with OSC branches, the Communications branch ensures that the Commission's stakeholders are well informed of OSC activities, directives and policy advances through effective communications.

### CORPORATE SERVICES

By building and maintaining the core internal systems and infrastructure, the Corporate Services branch helps the Commission's constituents to work effectively and efficiently with OSC programs and initiatives.

### OFFICE OF THE GENERAL COUNSEL

Provides senior legal advice and assistance on operational, transactional and regulatory issues to the Chair, Commission and staff. The GCO also leads policy projects – including legislative reform – and supports branches in the policy development process.

### OFFICE OF THE CHIEF ACCOUNTANT

Providing expertise on accounting and policy issues to OSC branches and reporting issuers, the Office of the Chief Accountant also participates in policy development and provides support to OSC projects.

### OFFICE OF THE SECRETARY

The Office of the Secretary to the Commission is responsible for ensuring the fair, impartial and efficient operation of the Commission's administrative proceedings, reviews and appeals; provides corporate secretarial services to the Commission's Board; and administers the request for comments procedures.

### OFFICE OF THE CHIEF ECONOMIST

Provides detailed cost-benefit analysis to the OSC and analytical support to policy and operational initiatives. In addition, the Office of the Chief Economist engages in fundamental research on the capital markets and attempts to foster external study of issues.



## COMMISSION MEMBERS

The 12-member governing body of the Ontario Securities Commission also serves as the Board of Directors for the Commission. Its responsibilities include approving policy, making recommendations regarding legislative changes to the Minister of Finance, serving on Commission tribunals, and overseeing the operating and financial affairs of the Commission. The Commission members bring a wealth of diverse experience and expertise to the OSC.

**David A. Brown, Q.C., Chair**

Appointed 04/98

A former senior corporate law partner with Davies Ward & Beck, Mr. Brown, in addition to his full-time role as OSC Chair, is Chair of IOSCO's Technical Committee and a senior member of the Canadian Securities Administrators. He was appointed Queen's Counsel in 1984. His current appointment expires in April 2003.



**Howard I. Wetston, Q.C., Vice-Chair**

Appointed 01/99

A member of the Ontario and Alberta Bars, Mr. Wetston was appointed Queen's Counsel in 1990, and has extensive experience in economic regulation and administrative law. Most recently he was a Judge of the Federal Court of Canada. His current appointment expires in January 2004.

**Paul M. Moore, Q.C., Vice-Chair**

Appointed 02/01

A member of the Ontario Bar, Mr. Moore was appointed Queen's Counsel in 1982, and has extensive experience in corporate and securities law. Most recently Mr. Moore was a partner with Tory Tory DesLauriers & Binnington (now Torys) where he headed up the firm's derivative practice group. His current appointment expires in February 2006.



**Kerry D. Adams, FCA**

Appointed 09/96

A former partner in the financial institutions branch of KPMG, and past General Manager, Investment Banking for ScotiaBank, Ms. Adams is President of K. Adams & Associates. She is Chair of the Investor e-ducation Fund. Her current appointment expires in August 2002.

**Derek Brown, LL.B.**

Appointed 10/97

Former Vice President and Director of RBC Dominion Securities Inc., Mr. Brown is currently Adjunct Professor of Finance at the Joseph L. Rotman Centre for Management of the University of Toronto. His current appointment expires in October 2002.



**Robert W. Davis, FCA**

Appointed 11/99

Currently president of Camiton Inc., Mr. Davis is a former Chief Operating Partner of the accounting firm Peat Marwick Mitchell. He is Chair of the OSC's Audit/Finance Committee. His current appointment expires in November 2002.



**Harold P. Hands, LL.B.**

Appointed 04/02

Mr. Hands served as the senior legal officer at Mackenzie Financial Corporation from 1987 until his retirement in 2001. He is a former Chair of the Investment Funds Institute of Canada. His current appointment expires in April 2005.



**Robert W. Korthals, MBA**

Appointed 04/95

Currently Chairman of the Ontario Teacher's Pension Plan Board, Mr. Korthals served as President of the Toronto-Dominion Bank from 1981 to 1995. His current appointment expires in April 2004.

**M. Theresa (Terry) McLeod, MBA, C.F.A.**

Appointed 11/99

A former investment banker with Pitfield, Mackay, Ross & Company, Merrill Lynch Canada Inc. and ScotiaMcLeod Inc., Mrs. McLeod is currently the president of McLeod Capital Corporation. Her current appointment expires in October 2002.



**H. Lorne Morphy, Q.C.**

Appointed 07/01

A member of the Ontario Bar since 1962 and appointed Queen's Counsel in 1975, Mr. Morphy is litigation counsel at Torys. His current appointment expires in July 2004.

**Robert L. Shirriff, Q.C.**

Appointed 03/02

Appointed Queen's Counsel in 1971, Mr. Shirriff is a partner and past Chair of the law firm Fasken Martineau DuMoulin. He also serves as Chair of the De Beers Group of Companies in Canada. His current appointment expires in March 2005.



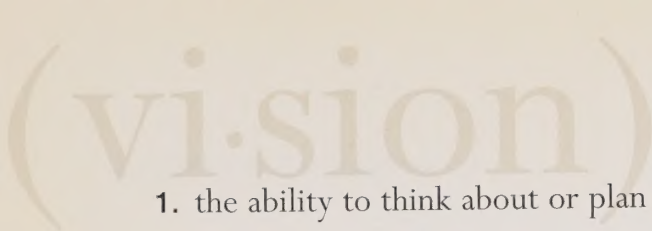
#### **In Memoriam**

It is with sorrow that we note the passing of Steve Paddon, one of our Commissioners, on June 7, 2002. Mr. Paddon was appointed to the Commission in January 1998 following a long and successful legal career both at Bennett Jones and at Crown Life. His insightful contributions to the OSC were appreciated, and will be missed.

Retiring from the OSC this year are Stephen N. Adams, a Commissioner from 1996 to 2001, and John A. Geller, a Commissioner from 1993 to 2001 and Interim Chair from 1996 to 1998. The Commission thanks them sincerely for the substantial contributions they have made.

Secretary to the Commission is John Stevenson. The Secretary's Office acts as liaison between the Commission members, OSC staff and the public, as well as Corporate Secretary and registrar for the OSC.



- 
1. the ability to think about or plan the future with imagination and intelligence

## A MESSAGE FROM THE CHAIR

Events that took place on the world stage in 2001 had far-reaching effects on business and on the priorities of the Ontario Securities Commission. The terrorist attacks of September 11, 2001, and the massive corporate failure of Enron influenced our agenda last year and will continue to influence it as we move forward. Accordingly, the OSC adapted its strategies to address the vulnerabilities in securities regulation exposed by these events.

The Enron bankruptcy underlined the need for greater discipline in financial reporting, accounting, auditing and corporate governance. The September 11 crisis prompted governments and world authorities – securities regulators included – to introduce changes to help prevent the financing of terrorism.

The conundrum we face as regulators is that – while these events clearly demonstrate the need for a more robust regulatory system – they occurred at a time when the OSC was working to *reduce* the regulatory burden imposed upon Canadian market participants. How, then, to reconcile these two seemingly opposed mandates? How do we simultaneously tighten the regulatory structure to help prevent these disasters, while becoming more flexible to ensure we don't stifle innovation or competitiveness in our capital markets?

We do so by viewing this as a time of opportunity – as the right time to redefine securities regulation. This process begins with a redefined vision: *To foster Canadian financial markets that are attractive to domestic and international investors, issuers and intermediaries because they are safe and cost-efficient.*

### REDUCE THE REGULATORY BURDEN

To realize this vision, we're focusing our efforts around three themes. The first is to create conditions to help our markets remain competitive. The way we regulate financial services must reflect the new realities of the

financial services industry, which is now characterized by more choice than ever before, both in terms of where investors can invest and the growing variety of investment vehicles available to them.

To foster more attractive markets and greater confidence in those markets, we must seek out and eliminate those burdensome regulatory requirements that no longer serve a useful purpose. A Regulatory Burden Task Force has begun the process of interviewing market participants to determine effective ways to safely *uncomplicate* our regulatory system.

A complaint we hear repeatedly is that multiple regulatory requirements in multiple jurisdictions are simply too complex and too expensive. The beginning of the solution is improved national harmonization of securities laws and practices. The OSC continues to be active on this front through its ongoing involvement in the Mutual Reliance Review System (MRRS) and our role in the Canadian Securities Administrators (CSA) Uniform Securities Legislation project to help harmonize securities laws and practices across the country.

The next level of the solution is developing legislative proposals to permit Canada's provincial regulators to delegate to each other the authority to make specific types of decisions. A further logical step would be to reduce the number of decision-makers from 13 provinces and territories to a single pan-Canadian commission – which would still be administered by the provinces and territories.

A final step in the evolution of financial services regulation would be the creation of a single, national market conduct regulator. This would reflect the reality of today's marketplace, in which similar financial services are offered by a variety of institutions. It would streamline decision-making, eliminate duplication, provide a level playing field to financial institutions, and give investors a consistent comfort level regardless of their





David A. Brown, Q.C.  
Chair

entry point into the financial system. On a provincial level, the proposed merger of the OSC and the Financial Services Commission of Ontario (FSCO) represents a necessary step in this direction.

#### FIND INNOVATIVE SOLUTIONS

A second focus is to respond to the rapid changes and innovations taking place in our capital markets with equally innovative regulatory solutions. As planning horizons narrow, processing speeds increase, transaction costs come down and new financial instruments are created, combined and unbundled, we must respond quickly and effectively to allow innovative products to be brought to market in a timely manner. By fostering this level of responsiveness, we can help maintain Canada's attractiveness to market participants.

We've spearheaded a number of initiatives in this area, including a proposal to reshape mutual fund governance. The proposal requires mutual funds to establish an independent governance agency to oversee the mutual fund manager and ensure it acts in the best interests of investors. Another example is the Fair Dealing Model, which outlines a new approach to regulating the relationship between financial service providers and their customers. (For more details on the Fair Dealing Model see page 11).

#### RESPOND TO A CHANGING WORLD

The third focus brings us back full circle to the events of 2001, and how we are responding to the regulatory implications. Following September 11, OSC staff accelerated efforts with both the Investment Dealers Association (IDA) and the International Organization of Securities Commissions (IOSCO) to deal with issues involving offshore accounts opened with Canadian investment dealers. We also worked with IOSCO to develop a multilateral memorandum of understanding

among the world's trading partners to facilitate improved information sharing during investigations of securities law violations.

Following the Enron collapse, we have seen the markets begin to self-impose new solutions to address the adequacy of corporate governance structures, auditing practices and disclosure of financial statements. It is our job as regulators to harness this renewed commitment and act swiftly to formalize long-term, sustainable improvements in our regulatory system. To that end, we're working on establishing a new form of independent oversight and discipline of accounting firms, enhancing management discussion and analysis (MD&A) disclosure, strengthening the role of the audit committee, and working with the accounting profession on auditor independence and updating accounting principles.

#### BUILD CONFIDENCE

All of these initiatives, and the many others contained in this annual report, really speak to one vital issue: building and maintaining confidence in our capital markets. Investors will be attracted to our markets based on the confidence that they are safe, liquid, and governed by a relevant set of rules with appropriate surveillance and enforcement mechanisms. Issuers will be encouraged to participate in our markets with the confidence that appropriate and cost-effective regulatory requirements are in place.

In closing I'd like to express my confidence that the OSC has the right team and resources in place to realize our vision. Thank you to OSC staff and commissioners for rising to the challenges we face and the opportunities they present.

David A. Brown, Q.C.  
Chair, Ontario Securities Commission



# (ac·count·a·bil·i·ty)

1. responsibility for decisions or actions; subject to explaining them when asked

## A MESSAGE FROM THE EXECUTIVE DIRECTOR

In an environment characterized by so much change on so many levels, there can be a tendency to simply focus on generating activity rather than results – an inclination to place more emphasis on outputs than on outcomes. Today at the Ontario Securities Commission, we've made it part of our strategy and our culture to shift our focus from outputs, those activities we complete, to outcomes, the changes we drive in the marketplace.

This requires us to be very diligent in many ways: to direct our efforts and resources towards the right issues; to work efficiently and cost-effectively; to collaborate with market participants in developing regulatory processes and requirements that respect their resources and capabilities; and to continually measure our performance against our objectives. Our outcomes last year demonstrate that the OSC has both the right people and the right infrastructure to deliver on all these fronts.

### REDUCE COSTS

The Regulatory Burden Task Force, which David Brown addresses in his message, is a key indicator of our commitment to working more efficiently and cost-effectively to reduce the burden of compliance without compromising investor protection. Just as important as ensuring we focus on the right regulatory issues in the most appropriate and least burdensome manner, is ensuring we're doing so in the most cost-effective way for both the OSC and market participants.

In this increasingly complex environment, we're consequently redefining our role to be less prescriptive – less focused on developing a rule for every eventuality and more focused on finding solutions that make good sense to all market participants. This means allowing them to operate within broader principles rather than detailed rules, and opting for non-regulatory alternatives, such as voluntary measures established by the industry, whenever these approaches are equally or more effective.

### ASSESS BENEFITS

An important aspect of this initiative is to evaluate our activities from a cost-benefit perspective. Our recent study on the proposed National Registration Database (NRD), a web-based system for registering dealers and advisers, is an excellent example of this approach at work. When complete, the NRD will permit dealers and advisers to file registration forms electronically, replacing the current paper-based process. While it's estimated that the NRD will cost approximately \$47 million to develop and operate over five years, the study shows that the benefits in cost savings and efficiency gains – estimated by market participants at \$85 million for the same period – will far outweigh the costs.

This level of analysis and accountability is increasingly becoming a part of everything we do. The Commission now operates in much the same manner as a business, with strict checks and balances in place to ensure that our budget is directed toward achieving measurable outcomes, and that fees better reflect the services provided. Over the past four years, the OSC has reduced fees on three separate occasions, saving market participants a total of \$20 million in the past year alone. Last year, based on extensive industry input, we proposed a new fee structure that would reduce fees by a further 20 per cent, while ensuring market participants pay a fair share based on the actual services they receive.

### THINK DIFFERENTLY

Finding new ways to save time and expense often requires innovative regulatory approaches. The OSC has recently instituted a "credit for cooperation" policy, which allows market participants to benefit from cooperating with OSC staff during an investigation. By offering more favourable, expedient and cost-effective consequences, we hope to encourage firms and individuals to work more closely with us to resolve compliance-related problems.





**Charles F. Macfarlane**  
Executive Director

The policy gives the OSC greater flexibility when the party has cooperated fully, while still sending a strong message of deterrence. Just as important, it gives market participants who have self-policed, self-reported and self-corrected a problem a more flexible and suitable result. This new approach is proving to be effective; we have already been informed about matters that might not have otherwise come to our attention.

#### A YEAR OF OUTCOMES

While it isn't possible to list all the positive outcomes from this year, following are a number of highlights:

- Information Technology staff developed a new intelligence system to link a wide range of internal and external databases that will allow Enforcement staff to improve the speed and effectiveness of investigations.
- Corporate Finance staff implemented a new exempt securities regime that will provide a significant boost to small businesses trying to raise capital.
- Capital Markets staff introduced Alternative Trading Systems rules to help foster more competition in our capital markets.
- Enforcement staff led a number of successful and high-profile investigations that resulted in strong messages of deterrence.
- Communications staff increased print and web-based investor education resources to help increase investor awareness.
- The Chief Accountant's Office played a key role in improving the rules governing financial disclosure to help improve investor protection.

#### MEASURING OUR PERFORMANCE

The outcomes of these activities – and the many others not detailed here – demonstrate that the OSC has a strong team and appropriate infrastructure in place to deliver

our mandate. Just as important, we're regularly measuring our progress from an objective, third-party perspective.

Last year, the OSC commissioned Ipsos-Reid to conduct the second phase of a Stakeholder Satisfaction Study; the first phase took place in 2000. Overall, the study found improvement in almost every area of stakeholder satisfaction. Ipsos-Reid called the results a "good news and better news" story, reporting that the OSC continues to record notably low negative scores compared to other regulatory bodies. There is a general perception that the OSC is a vital, necessary organization that is continuing its forward progress, and whose strengths lie in its core competencies: regulation, compliance, continuous disclosure and enforcement.

The results also focus OSC management and staff on areas we can further improve. One of these is communicating with registrants. We already have a number of initiatives underway to address this concern, including plain language training for staff and ensuring stakeholders are given even more opportunities for input into the regulatory planning process.

Another tool we use to gauge our effectiveness is an annual survey of our employees. Again, our results are very encouraging, showing a high level of employee satisfaction and demonstrating our commitment to another important outcome: being an employer of choice.

You can read about many other important initiatives and outcomes in the pages that follow. In closing, I extend my sincere thanks to the OSC staff; I am very fortunate to be part of such a talented, resourceful and dedicated team.

**Charles F. Macfarlane**  
Executive Director  
Ontario Securities Commission





# in.no.vate

**innovate** (in-no-vate) *v.*

1. to introduce new things, ideas or ways of doing something
2. to approach something in a new way





## FOSTERING INNOVATION IN OUR REGULATION AND OUR MARKETS

Innovative isn't a word often used to describe securities regulators. Yet, in an environment characterized by change, the OSC has made it part of our business strategy to innovate and foster innovation in our markets. This entails examining the existing regulatory framework and, when appropriate, developing new, innovative and cost-effective approaches to regulation. It also challenges us to find ways to help market participants bring new products and services to market more efficiently.

Rethinking the manner in which we regulate market segments is one way the OSC is taking a more innovative approach. The recent proposal for new mutual fund regulation is a case in point. It offers fund managers the flexibility of operating within a broader set of regulatory principles coupled with independent oversight, rather than conforming to detailed, prescriptive rules and wide-ranging prohibitions.

Our risk-based model for monitoring the compliance of market participants is another way we're thinking differently about how we carry out our mandate. The new model provides a more consistent and progressive form of regulation by assessing and assigning market participants a risk ranking to determine the frequency of field reviews. This approach ensures that compliance reviews – rather than being conducted randomly – are focused on high-risk market participants and their activities, resulting in more effective and efficient reviews.

We also innovate in our approach to enforcement; some of the investigative techniques and technologies used by the OSC are considered unique among securities regulators. One example is our use of intelligence analysts – professionals trained to uncover potential securities law violations by investigating leads, cross-referencing databases and analyzing open sources of information. By taking this proactive approach the OSC is able to diffuse potential problems before they present a danger to investors and capital markets.

Similarly, we utilize innovative technology in our enforcement efforts. Our investigative software, Market Integrity Computer Analysis System (MICA), is an excellent example. MICA helps us detect securities fraud and suspect trading practices by recreating the purchases and sales of securities on recognized stock exchanges and dealer markets across the country. The program is enhancing the investigation of market manipulation cases by cutting the time to complete analyses from months to weeks.

While innovation is playing a bigger role in the OSC's regulatory approach, it is also a shaping force in our capital markets. As the private sector generates new alternatives for investors – new products and new ways to receive information and conduct trades – the OSC must determine the best ways to regulate these developments. In our role as market regulator, we have clearly identified that we must respond to these innovations quickly, thoughtfully and effectively to foster the most attractive and competitive capital markets.



# in·te·grity

**integrity** (in-te-grī-ty) *n.*

1. adherence to a code of strong moral and ethical values and principles

2. completeness: as in fully accurate and complete disclosure of financial information



## PROMOTING INTEGRITY IN FINANCIAL ADVICE AND DISCLOSURE

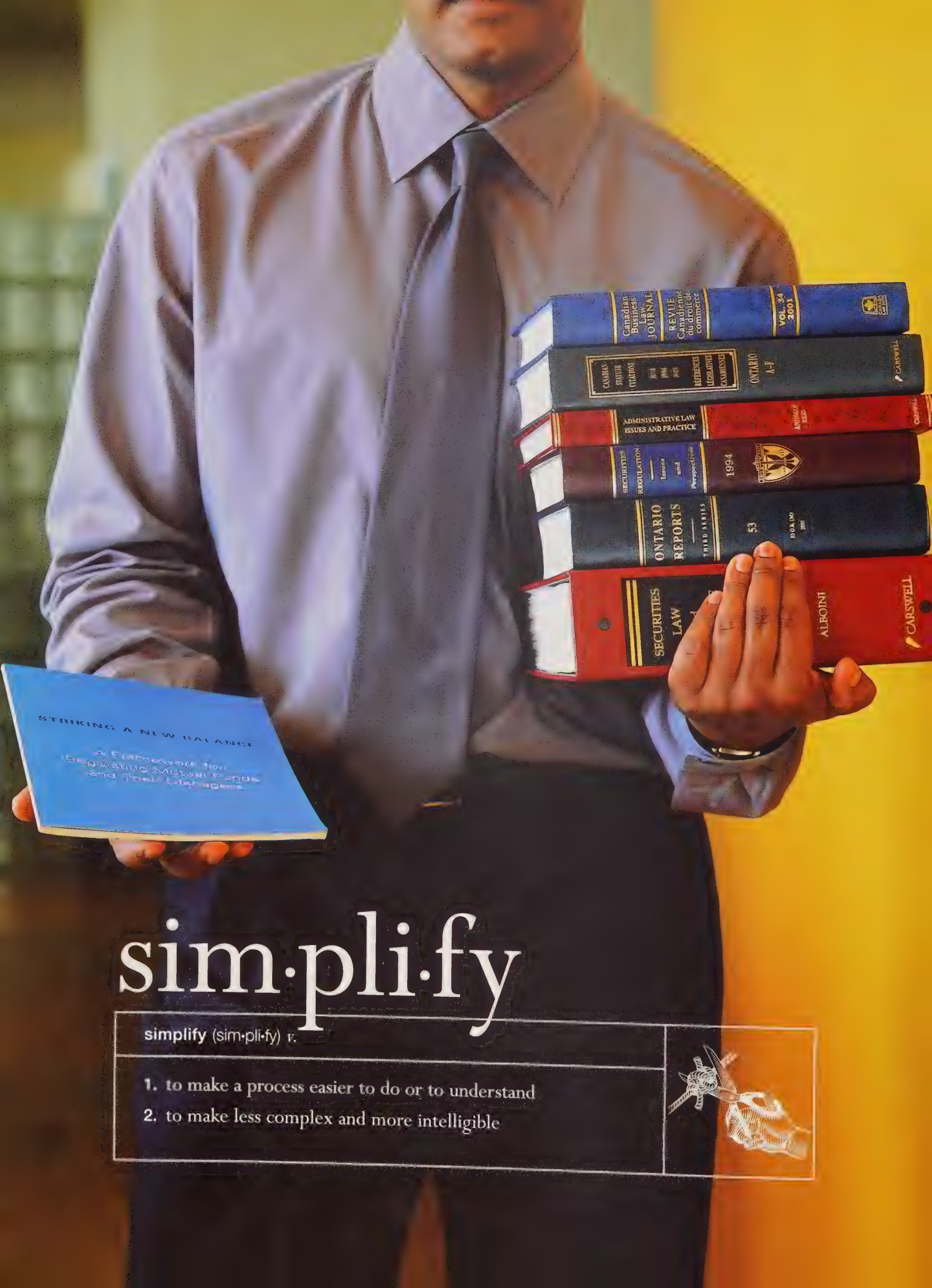
Recent events have underlined the need to promote greater integrity in the information investors use to make decisions. The high profile failures of US companies that had falsely portrayed themselves as financially healthy have damaged public confidence in financial reporting, auditing and corporate governance structures. Similarly, the dramatic fall in the prices of some stocks, whose previously spectacular performance had attracted record numbers of investors into the markets, has left some people feeling apprehensive about participating in the markets.

As regulators, we're very focused on restoring the confidence needed to maintain vital, competitive capital markets. To accomplish this we must ensure companies are disclosing regular, reliable information about their financial condition, and we must help investors feel confident that their advisers are providing sound, informed investment advice.

One way we can improve the experience of retail investors is to update our approach to regulating investment advice. We believe the regulatory framework should reflect the financial services industry's current business model, which has evolved from trading-based fees to advice-based fees. The OSC's Fair Dealing Model proposes to better define the rights and responsibilities of investors and advisers, reduce conflicts of interest in the provision of advice, and ensure greater transparency of adviser services, qualifications, compensation and other fees. By clarifying the nature of the provider-client relationship, the Fair Dealing Model will strengthen the integrity of that relationship and better serve the interests of both investors and the industry.

The quality and timeliness of financial information disclosed by reporting issuers is equally vital. In 1999, the OSC established the Continuous Disclosure team to monitor the integrity of this information. The team is currently on target to review every Ontario-based reporting issuer, on average, once every four years. If the reviewed disclosure does not conform to appropriate accounting standards and securities laws, issuers are required either to re-file or to commit to changes going forward. The team also conducts focused reviews to draw attention to important continuous disclosure issues, such as revenue recognition and interim reporting practices.

This past year, we also collaborated with the CSA to address concerns about companies' increasing use of unconventional earnings measures that are not prescribed by Generally Accepted Accounting Principles (GAAP). Because these terms lack standard, agreed-upon meanings and are unlikely to be comparable to other issuers' measures, they can be misleading to investors. We've now set out a number of expectations to issuers to ensure that GAAP measures are disclosed prominently in all financial communications so that investors can see a more complete picture.



STRIKING A NEW BALANCE  
A Framework for  
Regulating Mutual Funds  
and Their Managers

# sim·pli·fy

simplify (sim·pli·fy) v.

1. to make a process easier to do or to understand
2. to make less complex and more intelligible





## REDUCING THE REGULATORY BURDEN

As global financial markets become more and more integrated, organizations and individuals seeking to invest and raise capital will do so in locations where capital markets are both safe and efficient – where a high level of security is married with minimal cost and complexity. With this reality in mind, the OSC is seeking new ways to reduce the regulatory burden faced by market participants.

We recently announced a Regulatory Burden Task Force, which is currently meeting with stakeholders to identify opportunities to reduce regulatory costs for market participants by pinpointing activities that are inefficient or whose cost outweigh their benefits.

Our ongoing work with other securities regulators to harmonize regulation across sectors is another key way we're working toward lightening the regulatory load. For example, we're currently working with regulators across Canada to develop Uniform Securities Legislation to both simplify and harmonize laws throughout the country within two years. The initiative entails examining all existing securities legislation, rules and policies across the country, and consulting with industry stakeholders to develop Uniform Securities Legislation.

We believe the most effective way to achieve harmonization is to reduce the number of regulators by creating a single, national securities regulator. Ultimately, we would support a national market conduct regulator that cuts across financial services industry sectors, much like the provincial entity that would result from the proposed merger of the OSC and the Financial Services Commission of Ontario (FSCO).

Reducing the regulatory burden also includes finding ways to reduce excess costs to our stakeholders, and this begins with our internal processes. Now, before initiating any regulatory activity, the OSC conducts a comprehensive cost benefit analysis: stating the problem clearly; identifying projected outcomes; and rigorously considering alternatives (both regulatory and non-regulatory) in order to evaluate the merits of projects, justify the allocation of resources and, ultimately, produce the most effective regulation.

1. a demanding climate or motivating goal that tests one's skill and ability

## STRATEGIC CONSIDERATIONS

### CHALLENGE – A RAPIDLY CHANGING MARKET

#### Global Integration of Markets and Market Participants

As capital flows become global, so do the market intermediaries and infrastructure servicing the business. Many of the largest intermediaries are global conglomerates combining banking, insurance and securities services.

#### Changing Investor Demographics

Over the past decade, institutional investors have become larger and more sophisticated, while retail investment in the markets has grown explosively, both directly and through the purchase of investment funds. Both groups must have confidence in our capital markets, but their information and education needs may be very different.

#### Rapid Pace of Innovation

Competition is driving market innovation and the creation of more sophisticated financial products, trading techniques and strategies. Technology makes these products and services easier and cheaper to design, market and deliver. The functions of intermediaries are changing: trades can be executed directly from any location; direct links that bypass investment dealers into existing trading platforms have emerged; and alternative marketplaces are proliferating.

### RESPONSE – CREATIVE APPROACHES AND AN OPENNESS TO RE-EVALUATE EXISTING PRACTICES

Canadian financial markets must be, and be seen to be, fair, efficient and safe. The OSC must find innovative solutions to new issues and remain open to re-evaluating existing practices. Focuses include: making decisions at the pace at which markets are changing; building on our

relationships with domestic and international regulators; educating consumers; requiring issuers to provide understandable, accurate and complete disclosure; enforcing clear rules in a consistent and visible manner; facilitating the safe and efficient operation of exchanges, clearing and settlement functions, and other elements of the market infrastructure.

### GOAL – SAFE, EFFICIENT CAPITAL MARKETS THAT ARE EASIER TO ACCESS AND USE

The OSC has developed a four-year strategic plan that focuses on making our capital markets safer, more efficient and easier to access and use. The plan includes:

- Promoting harmony and less overlap between regulators;
- Undertaking prevention-oriented activities, including proactive public education;
- Taking a risk-based approach to regulation;
- Being less prescriptive when this can promote efficiency without undermining safety.

### OUTCOME – CLEAR OBJECTIVES AND DEFINED CRITERIA TO MEASURE SUCCESS

Our strategic plan identifies specific initiatives and results to achieve and measure the following outcomes:

- Consolidate and harmonize Ontario's capital markets and financial services regulatory system, both nationally and internationally;
- Ensure regulatory interventions in Ontario are timely, balanced and proportionate to the risks involved;
- Ensure investors, issuers and other market participants who use Ontario capital markets have ready access to protection, education and information at levels similar or superior to those of the best of our peer group.



1. the process of dealing with a situation in order to bring about a result or consequence

## WHAT WE WORKED ON IN 2001/2002

### PROTECTING INVESTORS

#### Encouraged Improved Accounting Practices

The CSA's concerns over the increasing use of non-GAAP earnings measures culminated in the January 2002 release of a Staff Notice reminding issuers of the importance of reporting financial results in a way that is not confusing or misleading. Staff's efforts to promote the establishment of a national independent audit oversight body were stepped up in the wake of concerns raised by the failure of Enron.

#### Added Valuable New Website Features

We provided investors with two important new resources on the OSC website: a listing of individual registrants, including any terms and conditions imposed on their registrations; and an Issuer Default List, which lists companies that have failed to make financial or other regulatory filings, and has consistently ranked among the website's most popular items.

#### Reviewed Continuous Disclosure Practices

Staff completed continuous disclosure reviews of 29 per cent of all active Ontario-based reporting issuers, meeting our target of reviewing each issuer, on average, once every four years. More than 40 per cent of the reviews resulted in a significant outcome, such as the issuer committing to disclosure changes going forward, or being required to refile certain materials. We also drew particular attention to important continuous disclosure issues through studies of issuers' revenue recognition and interim reporting practices.

#### Broadened Investor Education Efforts

We developed several new educational investor guides and interactive web tools, and contributed to the launch of the CSA website as a centralized source for investor education materials. Our staff was actively involved in the National Investor Education Week, hosted 28 public

seminars across Ontario, and distributed over 6,500 investor education kits at various events.

The Investor e-ducation Fund, an independent corporation funded by enforcement settlements, published its formal funding criteria, and began providing financial support for such initiatives as the "Taking Stock in Your Future" professional development program for educators and the "Fair Play" curriculum tools.

#### Reviewed Offshore Account Procedures

Several securities commissions surveyed IDA member firms on their policies and procedures for dealing with offshore accounts, and on the number of client accounts originating from current and former non-cooperating jurisdictions. The results will be used to improve our risk-based oversight and compliance reviews, and to further policy development on required levels of account opening due diligence.

#### Proposed a New Regulatory Framework for Mutual Funds

In March 2002, following more than one year of stakeholder consultations, we published for comment a concept proposal outlining the CSA's renewed vision for the regulation of mutual funds. The proposal calls for the establishment of independent mutual fund governance agencies to oversee the activities of fund managers, and streamlined, principle-based product regulation to replace detailed restrictions. We expect to issue draft rules during calendar 2003.

#### Strengthened Oversight of Self-Regulatory Organizations

OSC staff worked with other regulators on a Memorandum of Understanding to streamline oversight of the Investment Dealers Association, and chaired quarterly status meetings between the CSA and the IDA to obtain updates on its regulatory activities and discuss possible improvements. We recognized Market Regulation Services (RS) as a self-regulatory organization to provide

regulation services to marketplaces that retain its services. We began drafting a joint CSA oversight program for the Mutual Fund Dealers Association, and began monitoring MFDA membership.

## FOSTERING FAIR AND EFFICIENT CAPITAL MARKETS

### Continued Work on NRD and SEDI

Significant progress was made toward developing the National Registration Database, a web-based system which will enable dealers and advisers to file registration forms electronically. System design, coding and testing continued on schedule, and draft rules were published for comment. NRD is expected to become operational during the second half of the current fiscal year.

The System for Electronic Disclosure by Insiders was initially scheduled to be operational by the third quarter of fiscal 2002, but system issues required additional work to be completed. An implementation date will be announced during fiscal 2003.

### Improved Small Businesses' Access to Financing

The enactment of Rule 45-501 Exempt Distributions in November 2001 introduced two new private placement exemptions for small- and medium-sized businesses. The initiative is designed to facilitate access to start-up capital for small business while maintaining appropriate levels of investor protection.

### Facilitated Issuers' Access to Foreign Capital Markets

We reduced compliance costs for interlisted Canadian-based issuers by permitting them to file financial information prepared in accordance with US GAAP. We also removed impediments to foreign-based issuers accessing domestic markets by alleviating the obligation to reconcile to Canadian GAAP for those using appropriate international accounting standards, and by allowing them to satisfy our continuous disclosure requirements if they comply with comparable requirements of certain foreign jurisdictions. These rules were drafted in response to comments on our February 2001 discussion paper, "Financial Reporting in Canada's Capital Markets."

### Developed Policy on Selective Disclosure

Together with the other securities commissions, we published for comment National Policy 51-201 Disclosure Standards, which addresses concerns about selective disclosure of material corporate information by companies to analysts, institutional investors and other market participants. The policy provides guidance on existing disclosure requirements, and describes "best disclosure practices" that companies can adopt to help

manage their disclosure obligations. The final policy will be effective by the summer of 2002.

### Continued Work on a Fair Dealing Model

Having completed our consultations with an industry advisory group, we have begun work on an updated model for regulating the relationship between the financial services industry and individual investors. The Fair Dealing Model would seek to better define the rights and responsibilities of each party, reduce conflicts of interest in the provision of advice, and ensure greater transparency of adviser services, qualifications, compensation and other fees. We expect to release a concept proposal in the summer of 2002.

### Completed Alternative Trading System Rules

The Alternative Trading System (ATS) rules were enacted in December 2001, creating a framework for the regulation of ATSs in Canada. The initiative is designed to increase competition and increase liquidity in Canadian capital markets.

### Continued to Play a Key International Role

OSC staff participated in all five Standing Committees of the International Organization of Securities Commissions (IOSCO), as well as project teams examining issues related to the Internet and the role of securities analysts. For a two year term expiring in May 2002, Commission Chair David Brown served as Chair of IOSCO's Technical Committee, its key policy-making body, as a member of its Executive Committee, and as IOSCO's representative on the Financial Stability Forum, a group established by the G-7 Finance Ministers to help identify and respond to vulnerabilities in world financial markets. Mr. Brown continues to chair a special IOSCO sub-committee created in early 2002 to address issues highlighted by the failure of Enron. We are active participants in the international Joint Forum of Financial Regulators, which unites regulators in the securities, banking and insurance sectors. OSC staff led work on a Council of Securities Regulators of the Americas (COSRA) project on securities settlement systems.

### Contributed to Comprehensive Review of Securities Laws

The OSC's General Counsel participated as a Committee member, and other OSC staff provided research assistance support to the Five Year Review Committee, appointed by the Minister of Finance to conduct a detailed review of Ontario's securities legislation and regulations and to recommend possible reforms. The Committee's draft report was published for comment in May 2002.



## IMPROVING OUR EFFECTIVENESS

### Developed a Risk-Based Approach to Compliance

We distributed questionnaires to approximately 400 advisers and fund managers to assess the risks they face and the processes they have for monitoring and controlling them. Going forward, compliance activities and field reviews will focus on the highest-risk market participants, resulting in a more efficient use of staff resources and a reduced regulatory burden for those who operate at lower risk levels.

### Successfully Managed Increasing Volume of Public Contacts

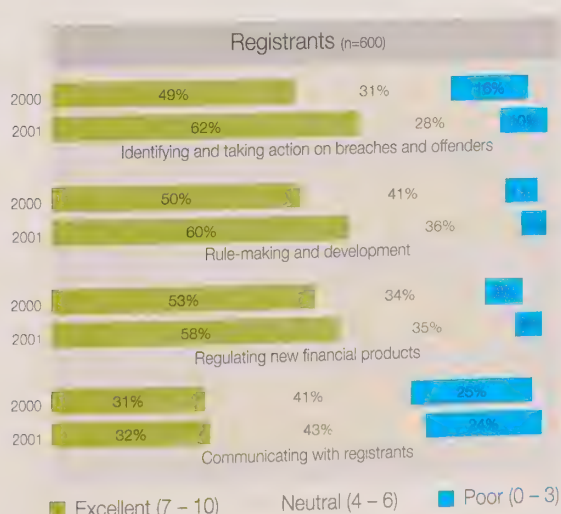
With the OSC's public profile continuing to grow, we handled over 37,000 inquiries and complaints via telephone, e-mail and mail, an increase of 48 per cent over the previous year. Inquiries & Contact Centre staff participated in several initiatives to measure and improve its effectiveness, including call monitoring and client call-back programs. According to an independent survey of its users, the Centre's service ratings improved, with 74 per cent rating overall customer service as excellent, compared to 60 per cent in a 2000 survey.

### Formalized Cost-Benefit Criteria

We trained staff in all branches to analyze the total economic impact of policy initiatives at the outset of each project, and for the first time, we established cost-benefit impact as a formal criteria for Commission approval of any undertaking. Among the analyses undertaken during the year, the Chief Economist's Office completed in-depth cost-benefit studies on major projects such as the National Registration Database and mutual fund reform.

### Stakeholder Satisfaction Survey

How would you rate the OSC on each of the following:



### Sought Opportunities to Reduce the Regulatory Burden

We appointed a three-member Regulatory Burden Task Force to consult with market participants and pinpoint areas where we can remove unnecessary costs and complications in the regulatory process. Its report is expected by the summer of 2002.

### Began to Incorporate Plain Language

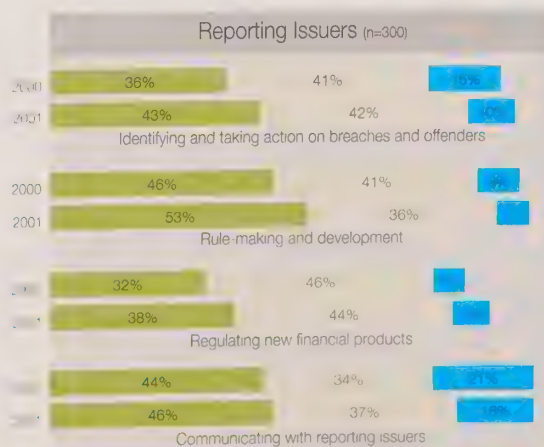
Virtually all of our legal, accounting and managerial staff is being trained in the use of plain language so that our policies can be better understood by our stakeholders. We have begun to apply this training in recently published concept proposals and other documents.

### Surveyed Stakeholder Opinions

To ensure that we remain accountable to our stakeholders, we commissioned a second survey of registrants, reporting issuers and investors, completed in the fall of 2001, 18 months after the first survey. The results, some of which are reproduced below, indicated improved satisfaction on many performance measures, and also identified several areas where continuing work is necessary.

### Worked to Become an Employer of Choice

We took a number of steps towards our stated priority of becoming an "employer of choice". Our annual employee satisfaction survey showed that we are making good progress, having exceeded the private sector norms on nine of the ten factors measured. We increased our permanent headcount by 18 per cent during the fiscal year, completing our growth phase which began in 1999. A market salary review was completed to ensure that compensation packages remain competitive. We initiated a comprehensive training program to continue to develop the skills of our management team.



Source: Ipsos-Reid, Fall 2001 and Spring 2000. Full report available at [www.osc.on.ca](http://www.osc.on.ca)

1. firmness of purpose; resolve
2. a position or judgement reached after thorough consideration

## ENFORCEMENT CALENDAR



### FIRST QUARTER

04/01

#### Trading without Registration

The Commission approves a settlement with **Paul Gordon**, a former salesperson of CCI Capital Canada Limited. The respondent admits that he sold units of Amber Coast Resort Corporation to two clients without being licensed to sell limited market products, thereby constituting trading without registration. Gordon is reprimanded, and his registration to sell mutual fund securities is suspended for 21 days.

07/01

#### Application for Prerogative Relief

OSC staff brings an application for prerogative relief to the Superior Court of Justice in connection with the trial of **John Felderhof** which had been proceeding in the Ontario Court of Justice. Argument on the application concluded in December 2001. Judgement remains under reserve.

05/01

#### Proceedings Commence

Proceedings commence against **Jack Banks** and **Larry Weltman**, directors and principals of **LaserFriendly Inc.** Allegations include that Banks and Weltman authorized the company to participate in a program whereby it would release share certificates without actually issuing the underlying shares. The OSC alleges they ought to have known that improper use might be made of these share certificates and that they failed to put in place sufficient preventive controls.

09/01

#### Hearing Begins

The Commission begins hearing proceedings in the matter of **YBM Magnex International Inc. et al**, initiated by OSC staff in November 1999. The hearing continues into the current fiscal year.

06/01

#### Proceedings Commence

Proceedings commence against the principals of CCI Capital, **Ricardo Molinari**, **Thomas Stevenson**, **Ashley Cooper**, **Marshall Sone**, **Fred Elliot**, **Elliot Management Inc.**, and **Amber Coast Resort Corporation**. The allegations include misappropriation of client funds, unlicensed trading, use of an unacceptable auditor, numerous compliance deficiencies and conduct contrary to the public interest. The hearing is adjourned in July 2001.



06/01

## Trading without Registration

In the first ever CSA co-ordinated settlement negotiated on behalf of all affected CSA jurisdictions at one time, three US brokers, **Datek Online Brokerage Services LLC**, **Ameritrade Inc.** and **TD Waterhouse Investor Services (US)**, admit they had executed trades or orders for Canadian residents without being registered in Canada to do so, and acknowledge that such registration is required. Datek and Ameritrade agree to seek registration in the Canadian provinces and territories in which they have clients. TD Waterhouse (US) had transferred its Canadian clients to TD Waterhouse (Canada) as of December 18, 2000. Each broker agrees to pay \$800,000 to Canadian securities regulators.

Q2

## SECOND QUARTER

07/01

## Proceedings Commence

Proceedings are commenced against **Livent Inc.**, **Garth H. Drabinsky**, **Myron I. Gottlieb**, **Gordon Eckstein** and **Robert Topol** for alleged misconduct concerning the improper recording of financial information in the books and records of Livent, the improper recognition of revenue, and the payment of false invoices. The hearing is adjourned to June 2002.

08/01

## Selective Disclosure

The Commission, in a joint hearing with the Quebec Securities Commission, approves a settlement in which **Air Canada** admits that it disclosed certain material facts to industry analysts but did not disclose them generally. Air Canada admits that it acted contrary to the public interest and that it failed to comply with the TSE Company Manual and its own disclosure policy. Air Canada agrees to a voluntary payment of \$500,000 to each of the OSC and the QSC, and will submit to a review by its auditors for each of the next four quarters to ensure compliance with applicable securities law, the TSE Company Manual and its own public disclosure policy.

08/01

## Failure to Segregate Securities Held for Clients

BDO Dunwoody Limited is appointed Receiver and Manager of **Buckingham Securities Corporation**. The OSC had previously extended a Temporary Order suspending the registration of Buckingham and prohibiting trading in any securities by Buckingham and its president and compliance officer, Lloyd Bruce, salesperson and director, David Bromberg, and director, Harold Seidel. The Temporary Order states that, among other items, Buckingham has a capital deficiency of at least \$1 million and the company has failed to segregate securities held for its clients as required by law.

08/01

## Proceedings Commence

A Notice of Hearing and a Statement of Allegations are issued against **Sohan Singh Koonar**, **Sports & Injury Rehab Clinics Inc.**, **Select Rehab Inc.**, **Shakti Rehab Centre Inc.**, **Niagara Falls Injury Rehab Centre Inc.**, **962268 Ontario Inc.**, **Apna Health Corporation** and **Apna Care Inc.** The allegations include trading in securities contrary to prospectus and registration requirements, failing to account for the funds raised from investors, and failing to maintain records necessary to record the business transactions and affairs of the companies.

08/01

## Illegal Trading in Securities

**Arnold Guettler** is sentenced in Ontario Court of Justice to five months in jail on each of three convictions under the *Securities Act*. **Neo-Form Corporation** and **Neo-Form North America Corp.** are each fined \$15,000 in respect of the convictions for: trading in securities without registration; trading in securities without filing a prospectus; and making representations that the shares of the two companies would be listed on a stock exchange with the intention of effecting trades. Guettler and the companies have served a notice of appeal.

08/01

## Proceedings Commence

A Notice of Hearing and a Statement of Allegations are issued against **James Frederick Pincock** who was at the time president of Britwirth Investment Company Ltd., and an officer or director of Fulton Park Limited and Wifsta Ltd. OSC staff alleges that the respondent distributed securities without filing a prospectus, and traded in securities and acted as an adviser to investors without being registered in any capacity.

08/01

## Temporary Cease Trade Order

Following the suspension of **Rampart Securities Inc.**'s membership rights and privileges by the Investment Dealer's Association, the Commission issued a temporary order suspending the firm's registration and ordering it to cease trading in any securities until a hearing takes place. It is alleged that Rampart had a capital deficiency in that it failed to maintain risk-adjusted capital greater than zero.



## THIRD QUARTER

10/01

## Proceedings Commence

Proceedings commence in the matter of **Teodosio Vincent Pangia**, **Agostino Capista**, and **Dallas/North Group Inc.** for allegedly selling \$1.38 million of shares of E.P.A. Enterprises Inc. (EPA) to members of the public while Pangia and Capista were senior executives of EPA and/or Dallas North and at all material times were not registered to trade in securities. Trades were alleged to be "off book". A pre-hearing is ordered for April 2002.

11/01

## Proceedings Commence

OSC staff alleges that **Michael Goselin**, **Irvine Dyck**, **Donald McCrory** and **Roger Chiasson** participated in illegal distributions of securities and acted contrary to the public interest by, among other things, selling a security for which no prospectus had been filed, misrepresenting to their clients the nature and return to be realized on investments and engaging in high pressure sales tactics.



11/01

## Proceedings Commence

OSC staff alleges that **Arlington Securities Inc.** and **Samuel Arthur Brian Milne** acquired stock in eight issuers for Arlington's own account and re-sold the stock to clients at excessive mark-ups ranging from approximately 146% to 337%. Staff alleges that Arlington and Milne failed to deal fairly, honestly and in good faith and did not act in their clients' best interests.

12/01

## Acting Contrary to Public Interest

The Commission approves separate settlement agreements with **Yorkton Securities Inc.** and four of its current and former officers, **G. Scott Paterson**, **Roger Arnold Dent**, **Alkarim Jivraj** and **Nelson Charles Smith**. Yorkton acknowledges that it acted contrary to the public interest by, at various times, permitting a culture of non-compliance, failing to properly supervise its employees and officers, acting in conflict of interest with its clients, failing to disclose conflicts of interest and failing to maintain appropriate records. Yorkton agrees to make a \$1,250,000 voluntary payment, and undertakes to strengthen its compliance procedures and to have them independently reviewed. Paterson agrees to sanctions including a \$1,000,000 payment, a two year suspension of his registration, a two year prohibition on serving as an officer or director of a registrant or owning any interest in a registrant, and a six month trading ban. The other individual respondents agree to make payments ranging from \$10,000 to \$50,000. Proceedings against a sixth respondent, **Piergiorgio Donnini**, are adjourned to a later date.

Q4

## FOURTH QUARTER

01/02

## "Prime Bank" Scam

**Douglas R. Walker**, **David C. Drennan**, **Steven Peck**, **Ray Ricks**, **Gerald McLeod**, and **Al Johnson** are sentenced in connection with "a giant scam" involving more than US\$2 million and 800 investors. The individual respondents are each issued fines of at least \$10,000 or jail sentences ranging from 90 days to two years. The corporations, **1173219 Ontario Limited (The Alternative Choice)** and **TAC International Limited**, are fined \$1 million each. The offences include trading in securities without the required registration, trading in shares of the above corporations without having filed prospectuses, and giving undertakings to investors that the shares of the above corporations would have a higher value in the future with the intention of effecting trades. Investors were told that they could earn high returns by accessing high yield roll programs which in the past were only available to large international banks.

01/02

## Proceedings Commence

Proceedings against **Brian K. Costello** begin, alleging that Costello acted as an adviser and traded securities without the required registration, and recommended specific securities without disclosing he held an interest in a company that would benefit financially from their sale, or that he received fees for publishing articles recommending these securities.



### Leave to Appeal Granted

The Ontario Court of Appeal grants the OSC leave to appeal the fine portion of the sentence ordered by the Superior Court of Justice in respect of **Glen Harper**'s conviction for insider trading. In its January 2001 ruling on Mr. Harper's appeal of the trial court's decision, the Superior Court had reduced the sentence from one year of imprisonment and a \$4.0 million fine, to six months imprisonment and a \$2.0 million fine. The OSC is denied leave to appeal respecting the period of incarceration.

### Insider Trading

**M.C.J.C. Holdings Ltd.**, the holding company of former Corel Corporation CEO **Michael Cowpland**, pleads guilty in the Ontario Court of Justice to insider trading. M.C.J.C. sold Corel shares for proceeds of approximately \$20.4 million, with knowledge of undisclosed information that Corel would fall short of its Q3 sales forecast. A penalty of \$1 million is imposed on M.C.J.C. Charges of permitting the holding company to insider trade and making a false statement to OSC staff are withdrawn against Cowpland personally, but other proceedings against him remain outstanding following the Commission's rejection of a proposed settlement agreement relating to allegations that Cowpland acted contrary to the public interest.

### Failure to Deal Fairly, Honestly and in Good Faith with Clients

The Commission approves a settlement agreement with **Robert James Emerson**, relating to a number of securities law violations which occurred when he was President and sole trading officer of IPO Capital Corp. Emerson is reprimanded, prohibited from becoming a director or officer of a reporting issuer and prohibited from trading in securities for five years except for a limited exception detailed in the Commission's order.

### Illegal Distribution of Securities

The Commission approves a settlement prohibiting **Larry Allen Ayres, Ernest Kiss, Arthur Krick, Ron Massachaele** and **Michael Vaughan** from trading in any securities for specified periods. The respondents participated in an illegal distribution of securities and engaged in conduct contrary to the public interest.

### Misappropriation of Client Funds

The Commission approves a settlement agreement with **Wayne S. Umetsu**, who admitted to trading futures contracts without being registered to do so, and to diverting \$79,500 provided by a client for investment purposes for his personal use. The respondent is permanently prohibited from trading in securities and from acting as a director or officer of any issuer.

## OSC PUBLIC SALARY DISCLOSURE

NAME	POSITION	SALARY PAID	TAXABLE BENEFITS	NAME	POSITION	SALARY PAID	TAXABLE BENEFITS
Alexopoulos, Tula	Special Advisor to the Chair	\$ 112,536.52	\$ 170.00	Liu, Winfield	Senior Legal Counsel	\$ 139,388.31	\$ 681.05
Beck, Joan	Senior Legal Counsel	\$ 127,569.32	\$ 454.60	Ljubic, Gregory	Senior Investigation Counsel	\$ 149,673.73	\$ 638.33
Bertoia, Julie	Senior Accountant	\$ 138,636.14	\$ 4,119.32	Lo, Yvonne	Senior Forensic Accountant	\$ 100,975.39	\$ 148.69
Blumberger, Erez	Legal Counsel	\$ 123,957.46	\$ 500.59	Macfarlane, Charles	Executive Director	\$ 366,036.24	\$ 7,726.57
Bridge, Marianne	Manager, Compliance	\$ 136,548.89	\$ 282.14	MacLaren, Tanis	Head – Office of International Affairs	\$ 165,652.97	\$ 251.66
Brown, David	Chair	\$ 551,531.17	\$ 9,841.84	Mainville, Chantal	Legal Counsel	\$ 110,733.65	\$ 170.09
Bulnes, Jamie	Investigation Counsel	\$ 102,292.77	\$ 162.81	Martin-Gorelle, Krista	Senior Legal Counsel	\$ 142,917.75	\$ 218.46
Bureaud, Jean-Paul	Legal Counsel	\$ 111,208.18	\$ 171.79	Martin-Sidey, Donna	Legal Counsel	\$ 140,588.49	\$ 212.09
Butler, Brian	Manager, Investigations	\$ 162,159.12	\$ 620.49	McCaullum, Susan	Senior Legal Counsel	\$ 122,583.93	\$ 187.87
Byrnes, Robert	Deputy Director, Information Technology	\$ 154,418.85	\$ 1,368.69	McCombe, Deborah	Geologist	\$ 116,537.23	\$ 522.88
Carchrae, John	Chief Accountant	\$ 181,385.10	\$ 260.97	McGregor, Mark	Manager, Technology Services	\$ 106,786.16	\$ 699.98
Casiero, Vincent	Investigation Counsel	\$ 109,061.54	\$ 167.55	McKali, Darren	Legal Counsel	\$ 102,505.27	\$ 149.29
Cho, Peter	Senior Forensic Accountant	\$ 123,969.51	\$ 632.05	McManus, Mark	Manager, Contact Centre	\$ 106,849.12	\$ 4,231.89
Clarkin, Brian	Senior Forensic Accountant	\$ 134,503.45	\$ 201.52	Moore, Paul	Vice-Chair	\$ 286,099.47	\$ 7,107.15
Corbett, Hugh	Litigation Counsel	\$ 126,605.26	\$ 293.53	Moore, Terry	Legal Counsel	\$ 122,698.80	\$ 431.89
Cottrell, John	Forensic Accountant	\$ 108,930.02	\$ 614.89	Moseley, Timothy	Manager, Litigation	\$ 101,909.72	\$ 123.15
Cowdery, Rebecca	Manager, Investment Funds Regulatory Reform	\$ 172,528.36	\$ 259.25	Naster, Jay	Special Counsel	\$ 221,614.02	\$ 239.66
Daniels, Kathryn	Litigation Counsel	\$ 119,951.53	\$ 338.71	Nunes, Vera	Legal Counsel	\$ 107,127.07	\$ 165.39
Dasil, Merilyn	Senior Legal Counsel	\$ 123,432.21	\$ 200.26	Oseni, Sarah	Legal Counsel	\$ 114,639.87	\$ 253.89
Day, Robert	Manager, Business Planning and Reporting	\$ 123,414.56	\$ 180.60	Pare, Maxime	Senior Legal Counsel	\$ 153,965.96	\$ 655.58
De Lint, Dirk	Legal Counsel	\$ 110,955.64	\$ 236.25	Paul, Margo	Manager, Corporate Finance	\$ 172,569.77	\$ 246.12
De Verteuil, Michael	Senior Forensic Accountant	\$ 128,735.99	\$ 197.24	Pavalow, Randee	Director, Capital Markets	\$ 187,914.66	\$ 268.73
Dempsey, Paul	Manager, Investment Funds	\$ 151,844.49	\$ 231.65	Petroff, Thomas	Senior Market Analyst	\$ 102,949.16	\$ 159.32
Di Lieto, Rossana	Senior Legal Counsel	\$ 113,825.38	\$ 187.07	Pilipavicius, Rima	Senior Forensic Accountant	\$ 123,149.83	\$ 195.96
Dowdall-Logie, Margaret	Manager, Registrant Regulation	\$ 152,872.62	\$ 240.19	Pilkey, Scott	Senior Investigation Counsel	\$ 143,934.20	\$ 460.80
Dowling, Sandra	Senior Accountant	\$ 140,454.40	\$ 212.09	Powley, Randall	Chief Economist	\$ 140,357.02	\$ 223.20
Dublin, Julia	Senior Legal Counsel	\$ 155,776.89	\$ 689.51	Ramsay, Anne	Senior Accountant	\$ 118,309.08	\$ 182.77
Dundas, Linda	Senior Derivatives Specialist	\$ 125,422.57	\$ 305.40	Sankar, Levi	Investigation Counsel	\$ 120,863.57	\$ 184.09
Enright, Lisa	Senior Accountant	\$ 105,774.16	\$ 483.74	Shay, Ralph	Director, Take Over Bids	\$ 134,551.47	\$ 234.12
Fallone, Joanna	Manager, Case Assessment	\$ 157,707.05	\$ 241.84	Smith, Ian	Litigation Counsel	\$ 149,911.32	\$ 219.81
Finlay, Kathleen	Manager, Project Office	\$ 118,393.30	\$ 176.42	Soden, Kathryn	Director, Corporate Finance	\$ 188,489.42	\$ 434.25
Forster, Christina	Assistant Manager, Compliance	\$ 122,980.86	\$ 567.88	Spencer, Mary	Director, Corporate Services	\$ 180,940.14	\$ 273.32
Gazzard, William	Director, Capital Markets	\$ 116,719.25	\$ 156.45	Stern, Tracey	Legal Counsel	\$ 122,770.12	\$ 177.27
Gerhart, Marsha	Senior Legal Counsel	\$ 143,609.33	\$ 336.80	Stevenson, John	Secretary to the Commission	\$ 154,326.69	\$ 236.28
Goldberg, Rhonda	Legal Counsel	\$ 109,503.90	\$ 169.25	Stow, Nancy	Executive Director, Investor Education Fund	\$ 104,191.44	\$ 158.85
Greenglass, Susan	Legal Counsel	\$ 133,461.25	\$ 212.69	Superina, Johanna	Senior Litigation Counsel	\$ 152,809.84	\$ 224.90
Gunn, George	Manager, Surveillance	\$ 108,972.31	\$ 1,184.76	Switzer, Frank	Director, Communications	\$ 143,640.24	\$ 234.13
Heldman, Sandra	Senior Accountant	\$ 111,272.08	\$ 125.47	Tedesco, Felicia	Assistant Manager, Compliance	\$ 127,946.45	\$ 634.10
Holmes, Janet	Senior Legal Counsel	\$ 120,214.84	\$ 162.15	Tillie, Marcel	Senior Accountant	\$ 133,690.37	\$ 427.55
Hubley, Michael	Assistant Manager, Investigations	\$ 107,699.62	\$ 1,066.84	Too, Byron	Manager, Application Services	\$ 106,245.46	\$ 161.44
Hughes, John	Manager, Continuous Disclosure	\$ 149,457.98	\$ 226.53	Tsatsos, Irene	Senior Accountant	\$ 108,592.57	\$ 167.51
Kennedy, Melissa	Manager, Litigation	\$ 156,312.07	\$ 196.29	Vranic, Iva	Manager, Corporate Finance	\$ 147,848.24	\$ 697.87
Kohl, Robert	Senior Legal Counsel	\$ 152,886.35	\$ 233.31	Watson, Michael	Director, Enforcement	\$ 219,410.08	\$ 318.80
Koor, Elle	Manager, NRD Project	\$ 143,340.41	\$ 215.06	Welsh, Doug	Legal Counsel	\$ 100,324.72	\$ 155.15
Leung, Antoinette	Senior Accountant	\$ 118,390.75	\$ 171.37	Wetston, Howard	Vice-Chair	\$ 381,189.10	\$ 7,766.30
				Whiler, Rick	Senior Accountant	\$ 136,359.92	\$ 208.67
				Wolburgh Jenah, Susan	General Counsel	\$ 193,525.75	\$ 279.15
				Wootton, Kate	Litigation Counsel	\$ 120,027.90	\$ 208.34



1. the detailed study or examination of something in order to understand more about it

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements present the results of the Ontario Securities Commission for the year ended March 31, 2002, with March 31, 2001 comparatives and accompanying notes. The following comments provide an analysis of the factors which affected the Commission's operations during 2002 as well as the factors that reasonably may be expected to impact on future operations and results. The document should be read in conjunction with the financial statements.

### ANALYSIS OF OPERATING RESULTS

#### Excess of Revenue over Expenditures

Excess of revenue over expenditures for the 12 months ended March 31, 2002 was \$30.1 million (2001 – \$37.1 million). The general operating surplus as at March 31, 2002 was \$9.4 million (2001 – \$11.3 million).

In accordance with the provisions of the *Securities Act*, the Minister of Finance has requested the Commission to remit funds that are surplus to its operating requirements to the Province. During the 12 month period, the amount distributable from the Commission to the Province was \$20.0 million (2001 – \$32.2 million).

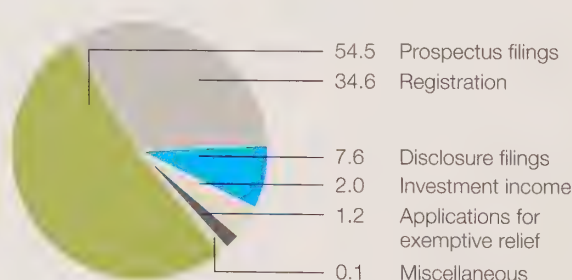
#### Revenue

In 2002, \$79.9 million was collected under the *Securities Act* and the *Commodity Futures Act*. Total revenue for 2001 was \$83.4 million. This represents a decrease of \$3.5 million or 4.2%.

The Commission has five primary sources of revenue:

**Prospectus filings**, comprising fees for preliminary and final filings and mutual fund renewals, were \$43.5 million and accounted for 54.5% (2001 – 58.4%) of total revenues. Prospectus filings fee revenue fell by \$5.2 million due to a decline in market financing activity as well as lower mutual fund fee revenues. These fees represent the most variable component of the Commission's revenue base, given their close correlation to the level of market activity.

OSC REVENUES BY TYPE (Per cent)



REVENUE	Total Revenue %	2002	2001	Change	Change %
		\$ thousands			
Prospectus filings	54.5	43,540	48,702	(5,162)	(10.6)
Registration	34.6	27,617	22,322	5,295	23.7
Disclosure filings	7.6	6,100	8,979	(2,879)	(32.1)
Applications for exemptive relief	1.2	971	1,180	(209)	(17.7)
Miscellaneous	0.1	114	164	(50)	(30.6)
Investment income	2.0	1,552	2,049	(497)	(24.3)
	100.0	79,894	83,396	(3,502)	(4.2)

**Registrations**, comprising fees for registration of dealers, advisers and salespersons, were \$27.6 million and accounted for 34.6% (2001 – 26.7%) of total revenues. Registration fees increased by \$5.3 million or 23.7% reflecting the impact of the Commission's decision to implement and subsequently postpone implementation of the uniform date for registration renewals.

**Disclosure filings**, comprising fees related to filings by reporting issuers, were \$6.1 million and accounted for 7.6% (2001 – 10.8%) of total revenues. Lower takeover bid activity was the key cause of this 32.1% revenue decrease.

**Applications for exemptive relief**, comprising fees from issuers seeking exemptions or modifications to filing requirements, declined by 17.7% to \$1.0 million and represent approximately 1.2% (2001 – 1.4%) of total revenues.

**Investment income** is comprised mainly of interest earned on cash balances at a rate of 0.25% below bankers' acceptance, as well as interest earned on the reserve which is invested in short- and mid-term instruments through the Ontario Financing Authority. Investment income generated by deposits and other investments was \$1.6 million and accounted for 2.0%

(2001 – 2.4%) of total revenues. The decrease in investment income can be traced to lower interest rates.

#### Expenditures

Total expenditures for 2002 increased 7.3% to \$49.7 million (2001 – \$46.3 million) against a budget of \$54.3 million.

The key contributors to the expenditure increase were as follows:

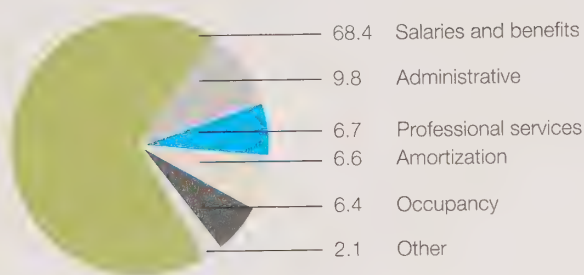
**Salaries and Benefits** costs were \$34.0 million and accounted for 68.4% of the Commission's total expenditures. Salaries and wages costs increased by \$4.2 million in 2002. A number of factors contributed to this increase including the full year cost impact of prior year hiring, an increase in staffing levels and higher benefit costs. The OSC had 350 permanent staff at the end of the year compared to 305 at the end of the previous year. The majority of new staffing was in direct program delivery areas with significant increases in Capital Markets (21%), Corporate Finance (9%) and Enforcement (9%).

**Administrative** costs accounted for approximately 9.8% (2001 – 8.9%) of the Commission's total expenditures. Expenditures on administrative costs increased by 18.1% to \$4.9 million (2001 – \$4.1 million). A key driver of this increase was overall growth in the size of

EXPENSES	Total Expenses %	2002	2001	Change	Change
		\$ thousands			%
Salaries and benefits	68.4	34,032	29,847	4,185	14.0
Administrative	9.8	4,873	4,127	746	18.1
Professional services	6.7	3,345	5,229	(1,884)	(36.0)
Amortization	6.6	3,278	3,036	242	8.0
Occupancy	6.4	3,185	3,050	135	4.4
Other	2.1	1,036	1,054	(18)	(1.7)
	100.0	49,749	46,343	3,406	7.3



OSC EXPENSES BY TYPE (Per cent)



the OSC which generated incremental expenditures in areas such as training, communications, supplies and other expenses. Significantly higher expenditures were also incurred on Commission related expenses due to greater levels of hearing activity.

**Professional Services** costs were \$3.3 million and accounted for approximately 6.7% (2001 – 11.3%) of the Commission's total expenditures. Expenditures in this area have been reduced by 36.0% as recent hiring has enabled the Commission to add to its resident expertise. Approximately 28.6% of the costs were incurred for enforcement-related matters. The Commission expects to continue to have an ongoing need to use specialized external legal and forensic accounting resources for enforcement activities.

The OSC is a member of the Canadian Securities Administrators (CSA), which is a forum composed of provincial securities regulators. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are co-ordinated through a centralized project office. The operating costs of the project office are borne on a formula basis by CSA members. In 2002 the OSC contributed \$164K towards the cost of the project office.

Total CSA spending on the projects mentioned above was \$2.1 million in 2002 (2001 – \$3.1 million) of which the OSC contributed \$923K (2001 – \$1.4 million). The OSC contribution included \$215K towards the professional services costs related to the establishment of the National Registration Database. Approximately \$97K was contributed by the OSC towards the completion of a national insider trade reporting system (SEDI). Other significant CSA initiatives to which the OSC provided funding include the Continuous Disclosure rule (\$128K), work related to development of an ATS Consolidator (\$85K), the Resale rule (\$74K), Mutual Fund Regulatory Reform (\$73K) and the Civil Remedies rule (\$69K).

**Amortization** costs account for approximately 6.6% (2001 – 6.5%) of the Commission's total expenditures. Amortization expenses increased to \$3.3 million (2001 – \$3.0 million). Amortization costs are projected to decline to \$3.1 million in 2003.

**Occupancy** costs accounted for approximately 6.4% (2001 – 6.6%) of the Commission's total expenditures. Expenditures on occupancy increased 4.4% to \$3.2 million (2001 – \$3.1 million).

**Other** costs decreased by 1.7% to \$1.0 million (2001 – \$1.1 million) and accounted for 2.1% (2001 – 2.3%) of the Commission's total expenditures. This decrease reflects lower than projected travel during the second half of the fiscal year.

## LIQUIDITY AND FINANCIAL POSITION

### Liquidity

The Commission requires liquidity to finance its operations and capital purchases. As at March 31, 2002, the Commission held cash in the amount of \$14.9 million, current assets of \$16.3 million and current liabilities of \$14.2 million for a current ratio of 1.2:1 (2001 – 1.1:1).

### Capital Transactions

Capital expenditures of \$1.4 million (2001 – \$5.4 million) were made during 2002. The majority of these expenditures (64%) were made in information technology (\$900K), including the purchase of equipment for increased staff complement.

The 2003 capital budget is \$1.7 million, 21.4% higher than the \$1.4 million spent in 2002. Approximately 87% of the planned capital expenditures are information technology related reflecting the Commission's commitment to maintaining state of the art information technology capabilities.

### Liabilities

Included in the accounts payable and accrued liabilities is \$1.1 million (2001 – \$1.8 million) relating to a provision for refunds of prospectus revenues. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued as required based on actual proceeds. As a result, this revenue is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. In 2002 the Commission refunded \$6.9 million of which \$1.3 million related to prior year fees and \$5.6 million related to 2002 fees.

The accrued benefit liability represents future obligations relating to supplementary pension plans established for certain full time members. The unfunded supplementary pension plans had an accrued benefit obligation of \$606K (2001 – \$408K) at March 31, 2002. The OSC's related expense for the year was \$295K (2001 – \$236K) and is included in salaries and benefits.

In support of the development of the Mutual Funds Dealers Association (MFDA), the Commission has guaranteed 61% of a total \$12 million line of credit as assistance during start-up of MFDA operations. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specific percentage of the total indebtedness. As at March 31, 2002, the MFDA had drawn \$8.9 million on this line of credit.

#### Designated Settlements

In August 2000, the Commission established a not-for-profit corporation, the Investor Education Fund, to support research and develop programs and partnerships that promote investor education. The Investor Education Fund is governed by a Board of Directors that is responsible for developing criteria for, and approving the disbursement of, funds.

During 2002, a total of \$4.1 million in designated settlements arising from enforcement proceedings was collected. These funds are receivable by the Commission to be allocated to or for the benefit of such third parties as the Commission may determine. The Commission directed that the \$4.1 million collected as designated settlements in 2002 be provided to the Investor Education Fund.

#### Reserve

The fact that a significant proportion of the current OSC revenue base is dependent on the level of market activity is a material source of risk for the Commission. The Commission has established a reserve of \$20 million which serves as an operating contingency for revenue shortfalls or unexpected expenditures. Income from the investment of these funds declined 13.8% to \$948K (2001 – \$1.1 million) reflecting the impact of lower interest rates. The prime investment consideration for the reserve is the protection of capital and the appropriate liquidity to meet unanticipated cash flow needs. Income generated by the reserve is taken into general operations.

The OSC received approval from the Minister of Finance to retain \$12 million from its operating surplus to be used towards the OSC's share of the implementation costs should the proposed merger of the OSC and Financial Services Commission of Ontario (FSCO) receive legislative approval.

#### Memorandum of Understanding

In accordance with the provisions of the *Securities Act*, the Commission is required to complete a Memorandum of Understanding with the Minister of Finance to outline the ongoing roles, responsibilities and accountability relationships between the two parties. A proposed Memorandum of Understanding has been completed with the Ministry of Finance and has been forwarded to the Minister for review.

#### 2002/2003 OUTLOOK

The Commission revenue forecast for 2003 is \$63.3 million, which is 20.7% lower than the \$79.9 million collected in 2002. The forecast reflects the impact of the 10% fee decreases implemented in August 1999 and June 2001 as well as a further planned 10% fee reduction which is currently under discussion. The forecast also reflects a reduction in fee revenues due to an expected decline in capital market financings as well as lower mutual fund activity.

During the past year, in consultation with stakeholders and other CSA jurisdictions, the Commission completed a comprehensive review of its current fees in order to streamline and simplify the fee structure and meet its commitment to align total fees with the cost of regulation. A concept paper outlining a significantly revised proposed fee structure was released for public comment and the Commission has considered the feedback from this process. A proposed rule is expected to be published for comment in June 2002.

The Commission has budgeted operating expenditures of \$53.7 million for 2003 (2002 – \$52.1 million). The budget increase relates primarily to salaries and benefits which are projected to rise by 9.9% to \$37.4 million (2002 – \$34.0 million). Key contributors to this expenditure increase include the annualized cost impact of hiring which occurred in 2002 as well as higher projected benefit rates. Total staffing is projected to reach 367 by March 2003. The OSC continued to benefit in 2002 from a temporary reduction in required pension contributions. The reduced contribution rate will end in December 2002 and from that date onward will represent an additional cost equivalent to 4% of salaries.

The Commission has budgeted \$3.6 million for professional services costs for 2003. The budget reflects a 9.0% decrease from 2002 expenditures. Significant professional services costs are budgeted for litigation and investigation services (\$450K) as well as a number of CSA policy initiatives including T+1 (\$200K), various New Rules (\$100K) and Alternative Trading Systems (\$60K).



CDS Inc., on behalf of the CSA, is managing the development of the National Registration Database system. The OSC has budgeted professional services resources (\$435K) for managing the integration of OSC internal data and operational requirements with the NRD system. Financial arrangements for the broader system implementation costs and the degree to which the OSC will participate financially has not yet been determined. The costs borne directly by CDS Inc. in developing the system will be recovered through system user fees. Implementation of the system is targeted for April 2003.

CDS Inc. is also responsible for implementation of the System for Electronic Disclosure by Insiders (SEDI). SEDI was launched in January 2002 but was brought down within ten days due to system performance issues. As a result of the changes that will be necessary to relaunch the system, it is anticipated that ongoing oper-

ating costs will increase. The CSA has agreed to provide up to \$800K to CDS Inc. towards these incremental costs. The mechanism for this financial contribution as well as the OSC's share is not known at this time.

Occupancy expenses are projected to increase by 12.5% to \$3.6 million in 2003. These increases reflect the costs for the additional space which the Commission has leased to accommodate its increased staff complement as well as higher lease-related operating costs.

The 2003 OSC budget does not include funding for the work that will be required if legislation is passed enabling a merger of the OSC and the FSCO. Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. The goal of the proposed merger will be to provide more integrated regulation of capital markets and financial services sectors.

## MANAGEMENT'S RESPONSIBILITY AND AUDITOR'S REPORT

### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.



**David A. Brown, Q.C.**  
Chair and Chief Executive Officer

May 10, 2002

### AUDITOR'S REPORT

To the Ontario Securities Commission,

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2002, and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Erik Peters, FCA**  
Provincial Auditor

Toronto, Ontario  
May 10, 2002



## BALANCE SHEET

As at March 31, 2002

2002

2001

### ASSETS

#### CURRENT

Cash	\$	14,854,685	\$	17,639,973
Accounts receivable		1,004,234		1,528,098
Prepaid expenses		422,252		293,781
		16,281,171		19,461,852

DESIGNATED SETTLEMENTS (Note 8)

130,879 1,544,975

RESERVE FUND ASSETS (Note 3)

32,000,000 20,000,000

CAPITAL ASSETS (Note 5)

7,876,910 9,760,851

\$ 56,288,960 \$ 50,767,678

### LIABILITIES

#### CURRENT

Accounts payable and accrued liabilities	\$	8,255,930	\$	10,793,134
Due to Province of Ontario (Note 10(a))		5,897,948		6,806,276
Current portion of obligation under capital leases (Note 6(b))		–		28,629
		14,153,878		17,628,039

#### NON-CURRENT

Other long term liabilities (Note 7(b))

530,795 236,254

14,684,673 17,864,293

DESIGNATED SETTLEMENTS (Note 8)

130,879 1,544,975

### SURPLUS

#### OPERATING

General		9,375,164		11,260,166
Reserve (Note 3)		32,000,000		20,000,000

41,375,164 31,260,166

#### CONTRIBUTED

98,244 98,244

41,473,408 31,358,410

\$ 56,288,960 \$ 50,767,678

Investor Education Fund (Note 9)

Commitments and contingencies (Note 4)

See accompanying notes to Financial Statements.

On behalf of the Commission



David A. Brown, Q.C.  
Chair



Robert W. Davis, FCA  
Commissioner

## STATEMENT OF OPERATIONS AND OPERATING SURPLUS

For the Twelve Months Ended March 31, 2002

	2002	2001
<b>REVENUE</b>		
FEES		
Prospectus filings	\$ 43,539,952	\$ 48,702,389
Registration	27,617,369	22,321,623
Disclosure filings	6,099,801	8,978,603
Applications for exemptive relief	971,482	1,180,332
Miscellaneous	113,976	164,302
Investment income	1,551,722	2,048,910
	79,894,302	83,396,159
<b>EXPENSES</b>		
Salaries and benefits (Note 7)	34,032,191	29,847,347
Administrative	4,873,075	4,126,609
Professional services (Note 2(b))	3,345,009	5,229,376
Amortization	3,277,968	3,035,706
Occupancy (Note 6(a))	3,185,354	3,050,543
Other	1,035,442	1,053,844
	49,749,039	46,343,425
<b>EXCESS OF REVENUE OVER EXPENSES</b>	30,145,263	37,052,734
<b>OPERATING SURPLUS, BEGINNING OF PERIOD</b>	31,260,166	26,374,609
<b>LESS: Distributions to Province of Ontario (Note 10(a))</b>	20,030,265	32,167,177
<b>OPERATING SURPLUS, END OF PERIOD</b>	\$ 41,375,164	\$ 31,260,166
REPRESENTED BY:		
General	\$ 9,375,164	\$ 11,260,166
Reserve	32,000,000	20,000,000
	\$ 41,375,164	\$ 31,260,166

See accompanying notes to Financial Statements.



## STATEMENT OF CASH FLOWS

For the Twelve Months Ended March 31, 2002

2002

2001

### NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES

#### Cash flows from operating activities

Excess of revenue over expenses	\$ 30,145,263	\$ 37,052,734
Adjustments for amortization	3,277,968	3,035,706
	33,423,231	40,088,440

#### Changes in non-cash working capital:

Accounts receivable	523,864	(1,068,281)
Prepaid expenses	(128,471)	(102,358)
Due to Province of Ontario	(908,328)	6,496,592
Accounts payable and accrued liabilities	(2,537,204)	776,455
Other long term obligations	294,541	236,254
	(2,755,598)	6,338,662
	30,667,633	46,427,102

#### Cash flows from financing activities

Distributions to Province of Ontario	(20,030,265)	(32,167,177)
Obligation under capital leases	(28,629)	(174,713)
	(20,058,894)	(32,341,890)

#### Cash flows from investing activities

Reserve fund assets	(12,000,000)	(5,000,000)
Purchase of capital assets	(1,394,027)	(5,378,146)
	(13,394,027)	(10,378,146)

#### NET INCREASE (DECREASE) IN CASH POSITION

(2,785,288) 3,707,066

#### CASH POSITION, BEGINNING OF PERIOD

17,639,973 13,932,907

#### CASH POSITION, END OF PERIOD

\$ 14,854,685 \$ 17,639,973

See accompanying notes to Financial Statements.

1. a short comment that contains important information about official documentation

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

### 1. NATURE OF THE CORPORATION

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the "Commission") as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

#### a) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Computer equipment under capital leases	2 years
Leasehold improvements	over term of lease

#### b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued, as required, based on actual proceeds in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is netted against professional services upon date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case recovery is recognized when cash is received.

#### c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.



**d) Employee Benefit Plans**

Commencing April 1, 2000, the Commission prospectively applied the new accounting recommendations for employee future benefits as referred to in Note 7.

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members. The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation is being amortized over the average remaining service period of active members expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

**3. RESERVE**

As part of the approval of its self-funded status, the Commission was allowed to establish a \$20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2002, have been invested in short-term and mid-term instruments with the Ontario Financing Authority.

For the period ending March 31, 2002, in calculating its remittance to the Province as described in Note 10, the Commission received approval from the Ministry of Finance to retain \$12.0 million, which may only be used toward implementation costs of the proposed merger with the Financial Services Commission of Ontario as described in Note 11, and are subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

- i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and
- ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments are credited to the operations of the Commission.

**4. COMMITMENTS AND CONTINGENCIES**

a) The Commission has guaranteed 61% of a total \$12.0 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999, and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2002, the MFDA has drawn \$8,913,000 (2001 – \$7,923,000) on this line of credit. Interest is charged at prime plus 0.50% per annum.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

## 5. CAPITAL ASSETS

	Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Office furniture	\$ 2,510,172	\$ 807,784	\$ 1,702,388	\$ 2,144,349
Office equipment	278,858	75,788	203,070	249,684
Computer hardware and related applications	7,038,590	4,686,750	2,351,840	2,685,737
Computer equipment under capital leases	831,725	831,725	—	—
Leasehold improvements	5,194,025	1,574,413	3,619,612	4,681,081
	\$ 15,853,370	\$ 7,976,460	\$ 7,876,910	\$ 9,760,851

## 6. LEASE OBLIGATIONS

### a) Operating

The Commission is committed to operating lease payments for the next 5 years as follows:

2003	\$ 3,282,673
2004	\$ 3,211,018
2005	\$ 3,184,760
2006	\$ 1,336,601
2007	\$ 9,721

### b) Capital

All capital leases expired on or before December 31, 2001. As at March 31, 2002, total obligation under capital leases amounted to \$0 (2001 – \$28,629). Interest owing on capital leases amounts to \$0 (2001 – \$711).

## 7. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2002 was \$900,885 (2001 – \$1,004,031) and is included in salaries and benefits.

b) The unfunded supplemental pension plans had an accrued benefit obligation of \$606,181 at March 31, 2002 (2001 – \$408,445). The Commission's related expense for the year was \$294,541 (2001 – \$236,254) and is included in salaries and benefits. No benefits were paid during the year (2001 – \$0). The average remaining service period of the active employees covered by these plans ranges from 1.92 to 4.85 years (2001 – 2.92 to 3.78 years).

The significant actuarial assumptions adopted at March 31, 2002 and March 31, 2001 are:

Discount rate	6.75%
Rate of compensation increase	0.0%

## 8. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The accumulated funds are held in a segregated bank account. As at March 31, 2002, the accumulated balance is determined as follows:



	2002	2001
Opening balance	\$ 1,544,975	\$ 1,445,692
Settlements	4,021,991	3,050,000
Interest	40,888	170,977
Payments		
Initiatives	–	(121,694)
Investor Education Fund – Prior period	(1,544,975)	–
Investor Education Fund – Current period	(3,932,000)	(3,000,000)
Investor Education Fund - Total	(5,476,975)	(3,000,000)
Closing balance	\$ 130,879	\$ 1,544,975
Represented by:		
Cash	\$ 498	\$ 1,528,157
Receivables	130,381	16,818
	\$ 130,879	\$ 1,544,975

The balance of \$130,879 (2001 – \$1,544,975) is due to the Investor Education Fund.

#### 9. INVESTOR EDUCATION FUND

a) The Investor Education Fund (the Fund) was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is independently managed by its Board of Directors to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements because the Commission will neither obtain future economic benefits from the Fund, nor incur related risks. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2002 and for the year ended March 31, 2002 are as follows:

#### INVESTOR EDUCATION FUND

Financial Position	2002	2001
Total assets	\$ 8,365,439	\$ 4,545,757
Total liabilities	\$ 192,120	\$ 89,038
Total net assets	8,173,319	4,456,719
	\$ 8,365,439	\$ 4,545,757
Results of Operations		
Total contributions and interest income	\$ 4,188,023	\$ 4,545,757
Total expenses	471,423	89,038
Excess of revenue over expenses	\$ 3,716,600	\$ 4,456,719
Cash Flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	\$ 5,476,975	\$ 3,000,000
Investment income received	118,371	–
Cash paid for initiatives and expenses	(368,341)	–
Net increase in cash position	5,227,005	3,000,000
Cash position, beginning of period	3,000,000	–
Cash position, end of period	\$ 8,227,005	\$ 3,000,000

- b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:
  - i) The Board of the Commission authorized a transfer of \$4,062,879 (2001 – \$4,544,975) of the Commission's Designated Settlements to the Fund. As at March 31, 2002, \$130,879 (2001 – \$1,544,975) remained to be paid.
  - ii) During fiscal 2001, the Commission entered into a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2002, the Commission incurred costs totalling \$181,776 (2001 – \$89,038) for services related to the Fund. The total cost of these services have been charged back to the Fund and, of this amount, \$141,257 is owing to the Commission as of March 31, 2002 (2001 – \$89,038).

#### 10. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

- a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In accordance with this provision, the Minister has requested the Commission to remit fee revenues which are in excess of its operating requirements. The Commission includes fixed asset funding in its operating requirements.
- b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.
- c) Costs of post-retirement non-pension employee benefits have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

#### 11. ESTABLISHING A SINGLE FINANCIAL SERVICES REGULATOR

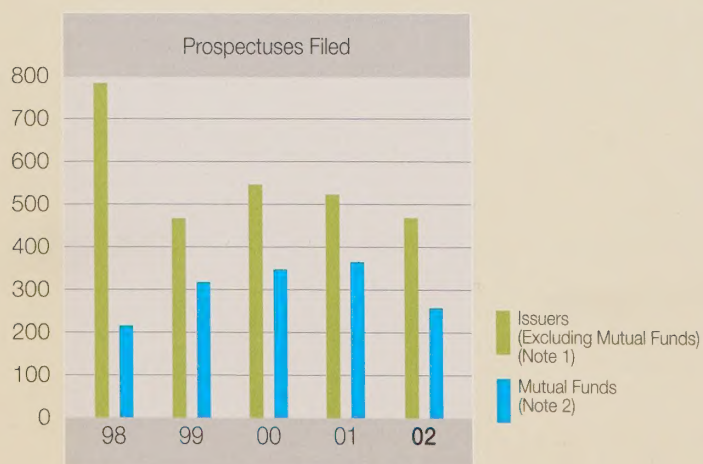
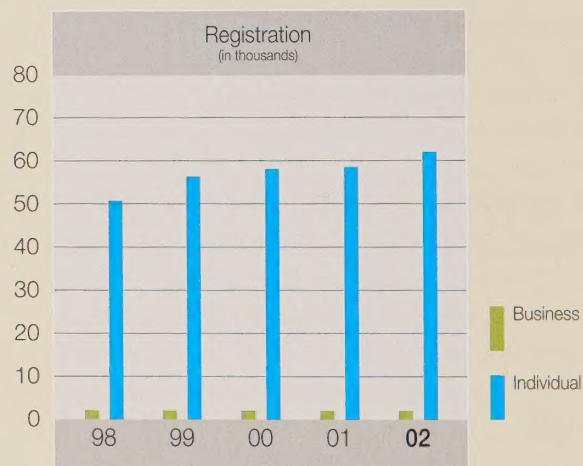
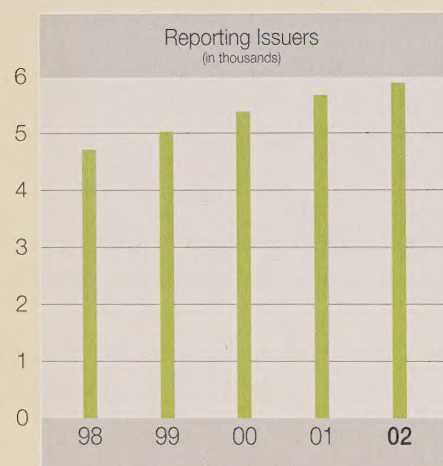
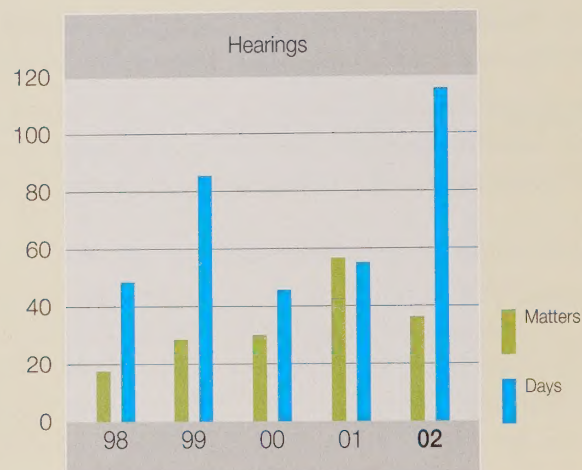
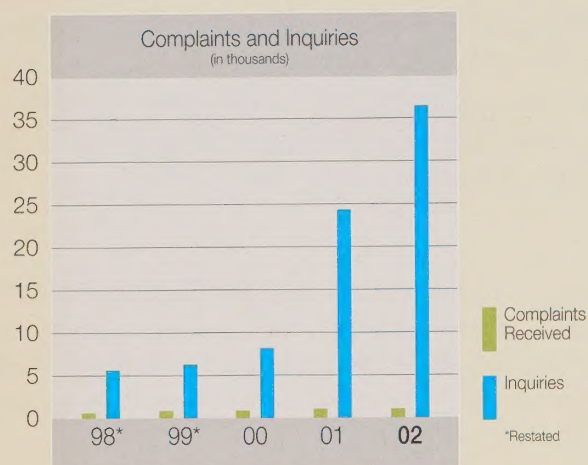
In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001.

#### 12. COMPARATIVES

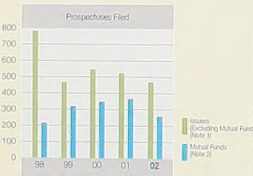
Certain of the comparative figures have been reclassified to conform to current presentation.





1 It should be noted that this chart includes short form prospectuses and may include prospectuses which were withdrawn or for which the director refused to issue a final receipt.

2 In most cases a prospectus qualifies more than one fund issuer. These numbers represent 2,616 mutual funds – 557 of which were newly created in fiscal 2001/2002. There were 161 amendment filings for mutual fund prospectuses.



## EXECUTIVE AND SENIOR MANAGEMENT STAFF

## Chief Accountant

John Cantrake  
416-593-8221

## General Counsel

Susan Wolfarth-Jarah  
416-593-8245

## Director, Capital Markets

Randee Pevsion  
416-593-8257

## Manager, Investment Funds

Paul Dempsey  
416-593-8091

## Manager, Regulated Regulation

David Gilkes  
416-593-8104

## Manager, Market Regulation

Cindy Pollock  
416-593-2351

## Manager, Compliance

Marlene Bridge  
416-593-8907

## Director, Corporate Finance

Kathryn Soden  
416-593-8149

## Director, Take Over/Issuer

Bids, Mergers and Acquisitions  
Ralph Shay  
416-593-2345

## Manager, Continuous Disclosure

John Hughes  
416-593-3895

## Manager, Corporate Finance Team #1

Margo Paul  
416-593-3136

## Manager, Corporate Finance Team #2

Iva Vasic  
416-593-8115

## COMMISSION

## Vice-Chair

Howard I. Welton, Q.C.  
416-593-8206

## Secretary

John Silverman  
416-593-8145

## Chair

David A. Brown, Q.C.  
416-593-8203

## Executive Director

Charles F. Macfarlane  
416-593-8208

## Director, Communications

Frank Switzer  
416-593-8120

## Manager, Contact Centre

Mark McManus  
416-593-8130

## Manager, Investor Education

Tom Williams  
416-593-2350

## Manager, Media Relations

Eric Poterlik  
416-595-8913

## Manager, Business Planning and Reporting

Robert Day  
416-593-8179

## Vice-Chair

Paul M. Moore, Q.C.  
416-593-8207

## Special Advisor

Tali Anagnostou  
416-593-8084

## Manager, Investment Funds

Regulatory Reform  
Rebecca Cowdery  
416-593-8129

## Director, Corporate Services

Mary Spencer  
416-593-8185

## Deputy Director

Information Technology  
Robert Byrnes  
416-593-8198

## Manager, Project Office

Kathleen Finlay  
416-593-8125

## Controller

Frank Placetta  
416-593-8069

## Manager, Business Planning and Reporting

Robert Day  
416-593-8179

## Investor Education Fund

Kerry Adams, FCA  
Chair and CEO  
416-593-8314Nancy Stow  
Executive Director  
416-593-8297

## Director, Enforcement

Michael Watson, Q.C.  
416-593-8156

## Manager, Investigations

Brian Butler  
416-593-8288

## Manager, Case Assessment

Joanna Fafore  
416-593-8304

## Manager, Surveillance

George Gunn  
416-593-8988

## Manager, Litigation

Melissa Kennedy  
416-593-2346

## Chief Economist

Randall Poxley  
416-593-8072

PLEASE NOTE:  
All e-mail addresses are as follows:  
First initial followed by last name then @osc.gov.on.ca



3 1761 11469623 0



**Ontario Securities Commission**

20 Queen Street West, Suite 1900, Toronto, ON M5H 3S8

Telephone: 416-593-8314 Toll Free: 1-877-785-1555

[www.osc.gov.on.ca](http://www.osc.gov.on.ca)